



OCCASIONAL PAPERS

No. 10

**PAY REFORM
IN THE PUBLIC SERVICE**

**INITIAL IMPACT ON
PAY DISPERSION
IN AUSTRALIA, SWEDEN
AND THE UNITED KINGDOM**

PUBLIC MANAGEMENT
OCCASIONAL PAPERS

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

The reform of pay systems in the public **service has** been motivated **both** by the search for increased flexibility **in** pay and employment and by the desire to contain the public sector pay bill. Governments deciding to implement **such** a reform **could** use three major instruments: competition between the public **and** private sectors for the provision of services traditionally supplied by the public sector; the decentralisation of pay determination; **and** the individualisation of pay.

These developments have, or will have in the near future, an impact on public sector pay. This report seeks to assess, in particular, the initial impact of these reforms on pay dispersion in the public service. To do so, it draws on recent experiences in Australia, Sweden **and** the United Kingdom. Reforms implemented in these three countries have a number of features in common, although they differ in pace and scale.

The Secretariat wishes to thank the countries that contributed to the report. However, any errors or omissions of fact or interpretation are entirely the responsibility of *the* Secretariat.

The report **has** been prepared by Professor Robert F. Elliott of the University of Aberdeen, Scotland. It is published on the responsibility of the Secretary-General of the OECD, following agreement by the countries concerned to its publication.

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INTRODUCTION'

This is a study of three countries engaged in fairly radical reforms of the systems that determine the pay of their public sector employees. The three countries are Australia, Sweden and the United Kingdom, and they have been chosen because, while the central thrust of the reforms in all these countries has been towards greater decentralisation, each country has adopted a different approach. The purpose of this study is to detail these reforms and provide an initial assessment of the outcome of these reforms in the three countries.

The motivation for reform

The reform of pay systems in the public sector has been motivated both by the search for increased flexibility and the desire to contain the public sector pay bill. Pressures on pay systems in the public sector area have arisen from macroeconomic, managerial and labour market considerations.

At the macroeconomic level, pressures to contain public expenditure, of which public sector pay is the major component, grew with the onset of the most recent recession and the consequent increase in transfer payments. In both Australia and the United Kingdom the trough of the recession was in 1991, while the trough occurred some two years later in Sweden. In all three countries total government expenditure grew more rapidly than GDP between 1989 and 1993 (see Table 1 below) and of the two major elements of government expenditure — government consumption expenditures and transfer payments — it was the latter that grew most rapidly over this period.

Table 1. The relative rates of growth of GDP, total government expenditures and transfer payments 1989-1993

	The ratio of changes in GDP to total government expenditure	Government final consumption to social security and other transfer payments	Share of GDP in 1993 accounted for by Government consumption	Social security and other transfer payments
	(1)	(2)	(3)	(4)
Australia	0.62	0.55	18.8	13.2
Sweden	0.57	0.38	26.9	26.8
UK	0.79	0.43	20.7	17.2

Source: Table 1, *Trends in Public Sector Pay in OECD Countries*. 1995 Edition, OECD, Paris, 1995

Indeed, transfer payments increased around twice as quickly as government consumption expenditures, which still grew considerably more rapidly than did GDP between 1989 and 1993. The public sector pay bill is the largest single component of government consumption expenditure and thus it seems likely that the rate of growth of the public sector pay bill also exceeded the rate of growth of GDP over this period in these countries.

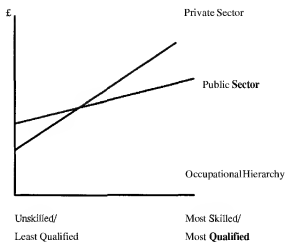
Concern to reduce the size of the public sector deficit in European Union countries can be explained in part by the criteria that have been established for achieving monetary union specified in the Maastricht Treaty. More generally, the desire to reduce public expenditure reflects the now widespread acceptance of the neo-classical view that public expenditure crowds-out private expenditure and thus diminishes the size of the private sector, which is often erroneously described as exclusively the wealth-creating sector.

Yet by the mid-1990s these general macroeconomic considerations assumed less prominence. The predominant pressures on public sector pay systems have arisen as a consequence of managerial and labour market considerations: managerial pressures to improve efficiency and respond appropriately to a more rapidly changing external environment; and labour market pressures to recruit, retain and motivate the right staff. Because pay can be linked to performance, pay has come to be viewed as a mechanism for both increasing public sector efficiency and improving the quality of the services produced by the public sector, while efficiency can also be enhanced by introducing greater diversity into public sector pay systems (see Maguire, 1993).

The reforms have been motivated by the recognition in many countries of the diverse range and types of services provided by the different parts of the public sector — services as diverse as those provided by education, the tax collection service, and the police and judiciary — and by the recognition of the appropriateness of constructing a pay structure that meets the specific labour market needs of each of these activities. As a result of decentralisation, different areas of the public sector are being encouraged to adopt different approaches to service provision and to construct pay and grading structures that reflect these needs. In turn, this has resulted in both more diverse and more flexible pay arrangements. Linking improvements in pay to improvements in performance is just one of the ways in which greater flexibility has been introduced.

Evidence suggests that, in the past, public sector pay has not responded flexibly to changing labour market conditions. Thus in Sweden there emerged the “double imbalance”, where male manual workers earned more in the public sector than in the private, while male salaried workers in the public sector earned less than in the private sector (Schager, 1993). Recent studies reveal a similar pattern in the United States and the United Kingdom (Katz and Krueger, 1993; Elliott and Dufus, 1994). The picture that emerged in each of these countries is illustrated in Figure 1 below, and is likely to have been replicated in several other OECD countries at the end of the 1980s. The figure reveals that unskilled workers in the public sector received substantially higher rates of pay than comparable workers in the private sector but, as we move up, the occupational hierarchy to increasingly more skilled and highly qualified jobs the wage advantage slowly disappears, so that at the top of the hierarchy public sector workers were much less well paid than their private sector counterparts. In consequence, wage structure was much more compressed in the public sector than in the private sector. The reform of public sector pay systems in at least two of the three countries studied here (Sweden and the United Kingdom) has been designed, in part, to remove this imbalance.

Figure 1. Public and private sector wage structures



PUBLIC SECTOR PAY REFORMS

An overview

Two broad sets of policies have had an important impact on the pay of public sector workers in the countries studied. The first set has increased the role of competition in the provision of both the inputs to and the outputs of the public sector. This competition has variously taken the form of market testing, contracting-out and the creation of quasi-markets between and within Public Sector institutions. One of the consequences of enhancing the role of competition in the provision of services which have traditionally been supplied by the public sector is that the number of public sector employees has fallen. This is both because some of these services have been contracted out to the private sector but also because even where public sector workers have bid for and successfully retained the contract for the provision of services, this has generally been accompanied by a reduction in the number employed. The thrust of the second set of policies has been the decentralisation of pay determination and the individualisation of pay.

The nature and scope of these policies and an assessment of their impact on the pay of public sector workers in the three countries comprises the focus of the report. In particular the report seeks to assess the initial impact of these reforms, admittedly still largely in their infancy, on the structure and dispersion of pay in the public sector in these three countries.

Decentralisation and individualisation of pay

The pay reforms introduced in the three countries have a number of features in common. All these countries have decentralised pay determination in large areas of the public sector to agencies.² Uniform centralised pay structures are being dismantled and in their place flatter, more streamlined structures more appropriate to the needs of each main branch of service provision are being negotiated. Sweden has so completely devolved responsibility for pay and grading to agencies, that in the future there may no longer be a common grading structure for the civil service below the most senior management grade. The UK civil service is introducing full pay and grading delegation to all its departments and civil service agencies from April 1996; as a result of which there will be in the future no common grading structure below senior management level. All three countries have introduced performance pay for senior managers and other white-collar workers, and most recently all three have introduced specific targets or controls on either running costs or pay bills in this sector. The idea that the performance of public sector workers can be enhanced by linking their pay to their performance has gained widespread acceptance in all three countries in recent years.

Yet the pace and scale of these reforms has differed among the three countries, as has the extent to which the countries have dismantled previous bargaining arrangements and therefore created scope for the reforms to work. Australia, unlike the other two, has quite deliberately sought to maintain a common grading structure for the Australian Public Service and, like Sweden but unlike the United Kingdom, at

least initially, it has sought to ensure some uniform minimum pay increase is awarded to all employees. Local government in both the United Kingdom and Sweden (and in Sweden this includes the health service) has been less affected by these reforms while in Australia, the distinctive federal structure and the greater autonomy of the states has allowed a number of states to push through quite radical reforms.³

Market testing, contracting out and quasi markets

All three of the countries studied here have contracted out activities previously provided “in-house” by the public sector. Waste collection and water supply has been contracted out in many parts of the United Kingdom and Sweden.⁴ Maintenance and cleaning contracts for the NHS and Central government have also been contracted out in the United Kingdom.

Market testing, in which public agencies must seek bids to supply a service from private as well as public suppliers, has also been employed in the United Kingdom and Australia. In the latter it has been used primarily in the areas of cleaning and maintenance contracts (for public buildings).

Up until 1993, these methods of introducing competition were almost exclusively confined to the simpler, routine, more homogeneous services, in which it is easier to specify the characteristics of the service in terms of both its quantity and quality and the time and place at which it is to be delivered. With more heterogeneous products, asymmetries of information between the customer and supplier give rise to problems of moral hazard, and these raise substantially the transaction costs associated with such contracts. These transaction costs arise because of the need to specify very precisely the nature of the service that is to be provided and either monitor the delivery of the service or design an incentive structure, often a payments system, which ensures delivery of the appropriate service. It has therefore mainly been blue-collar cleaning, catering and construction occupations that have been affected by these developments.

Quasi-markets have been introduced in some areas of each of these countries, but these have as yet had little impact on pay because the full implications of the reallocation of resources consequent upon greater consumer choice have still to be realised. Thus while in the United Kingdom parents have now been provided with greater information on the performance of state schools and may choose to switch their children's school as a result, this reform has had little impact on the earnings of teachers. Again, while many local doctors (GPs) have become budget (fund) holders and may choose to purchase services from whichever hospital is most appropriate to their patients' needs, their pay is largely unaffected by this process. Thus in both cases the resource allocation decisions of the service providing agencies have yet to affect the earnings of the service providers because the agencies are either not able or not willing to negotiate or set the pay of their employees. A determination that this should not continue is, in part, the motivation for the moves to decentralise pay determination and to introduce a greater individual element into pay that have been so prominent a feature of public sector pay reform in all three countries.

THE EXPECTED IMPACT OF THE REFORMS

Decentralisation

The decentralisation of pay bargaining or the delegation of responsibility for pay might be expected to affect the dispersion of pay among occupations within an agency or organisation and within a sector of the economy for a number of reasons. Decentralisation on its own will almost certainly lead to increased dispersion in the initial stages. However, it is frequently accompanied by the introduction of new pay structures, which often results in a reduction in the number of different occupations (delaying), which in turn necessitates regrading. The outcome of this process could be either an increase or decrease in dispersion. Sometimes the process of pay reform also leads to the consolidation of allowances and overtime into basic pay, and this is also likely to affect the dispersion of earnings both within and among groups.

One reason why the decentralisation of pay might be expected to increase pay dispersion is that, as a result of decentralisation, there will now be many more separate bargaining units than before, and management in each of these may seek to reflect the specific circumstances and needs of their organisation in the settlements awarded. Where the regional and organisational circumstances of different departments and agencies differ, this may give rise to different settlements for groups that had formerly been covered by the same bargaining arrangements. Against these preferences of management, however, are ranged the powerful forces of wage leadership and wage emulation. Trade unions may seek to emulate the increases achieved elsewhere and may indeed adopt the strategy of winning high settlements from those organisations most able and/or willing to pay and then seeking to generalise the results of this "key bargain" to other agencies. Indeed, management in smaller agencies, confronted with the transaction costs of striking their own deal, may seek to avoid this by adopting a formula, or following a wage settlement agreed elsewhere. These forces could therefore substantially reduce wage dispersion or, at most, leave it unchanged.

The pressures to reduce wage dispersion are likely to depend critically on both the power of public sector trade unions and on their willingness to deploy their power. Trade union power together with the information advantages of incumbents constitute the primary sources of power possessed by those currently employed, the insiders. However, trade union power and the willingness to deploy it have to varying degrees decreased in recent years, while the power that remains is likely to differ in degree between agencies and organisations. Decentralisation may offer the opportunity for unions to focus their power in a way that minimises the disadvantages of their generally weakened position; but if these variations in power are fully exploited this may also lead to greater dispersion in wage outcomes.

Decentralisation is frequently accompanied by the introduction of new pay and grading structures sometimes consequent upon a process of "delaying". In Australia and in several civil service agencies in the United Kingdom, these new pay structures have introduced broader pay bands, sometimes within the general structure of a single pay spine. The immediate impact of these broader pay bands on pay dispersion cannot be predicted *a priori*, without detailed knowledge of the criteria that determine changes in the location of employees within the pay bands, for the pay bands are different from the old

incremental pay scales they have replaced. For example, the new structure introduced in the United Kingdom will have built on a service-wide performance pay system introduced in 1992-93, whereby pay increases are tied to individual performance. This in turn replaced old pay scales on which pay was related to seniority. However, over the longer term the new grading structure is likely to lead to greater pay dispersion at least in Australia, for the new "pay bands" are frequently much longer than the old incremental scales they have replaced in Australia. In the United Kingdom, the new pay spines in the civil service tended to take the old pay spines and add extra spine points between the existing spine points (e.g. one step of 4 per cent became 4 steps of 1 per cent), as well as adding a few extra points on the top. This, in itself, could increase the measure of pay dispersion without any changes to the range, minimum or maximum.

Where decentralisation has been accompanied by delayering, the delayering has typically resulted in a reduction in the share of employment in middle and junior managerial posts, which will give rise to an increase in the dispersion of earnings among occupations. This phenomenon has been called the "vanishing middle" (see OECD, 1994a). Although there have been reductions in senior civil service staff numbers as a result of the senior management review in the United Kingdom, regrading must necessarily accompany delayering (some existing employees will have to be assigned new posts), but regrading may also be undertaken within an established occupational structure. In either case it will affect the dispersion of pay, but in the latter it is difficult to establish *a priori* the expected impact of this process on pay dispersion. If the regrading elevates a minority of employees to higher grades dispersion is likely to widen, but when the majority are affected dispersion could either narrow or remain unchanged. In summary, it is difficult to make any simple predictions about the general impact of new pay and grading structures on pay dispersion. To do so requires a very detailed study of the precise form of the new pay structures that are now being introduced.

Finally, pay reform and decentralisation has sometimes involved the "buying-out" (consolidation into basic pay) of special allowances and overtime payments. In general this is likely to narrow the dispersion of earnings within an occupation. Previously these will have been paid to only some employees and their consolidation into basic pay amounts to a general redistribution of the monies available for such payments. It is nonetheless conceivable that on occasion where allowances have been bought-out at a level which is "too high", consolidation into basic pay could then increase the dispersion of pay among occupations.

Individualisation

The individualisation of pay might be expected to increase the dispersion of pay within occupations. Even where the introduction of performance pay initially results in a narrower dispersion of pay (in those cases in which performance varied less than the old earnings dispersion), tying pay to performance should ensure that subsequently there is greater dispersion of pay within each occupation. Subsequent increases would be expected to reflect the diversity of performance in a way that the uniform settlements awarded under the previous system could not.

However, once again there are forces working in the opposite direction. Equity considerations may place limits on the degree of inequality that will be tolerated by the workforce, and high performers may not enjoy a succession of greater-than-average increases. This consideration is likely to be paramount where employees perceive that the service is delivered through team performance, and they may therefore construct informal arrangements to rotate the award of extra pay among those they perceive to be the team members.

The balance of the above arguments would seem to point toward greater dispersion of pay as a result of the decentralisation and individualisation of pay, but ultimately the issue can only be resolved by scrutinising the evidence, although it will take time for the effects to show through as in a low inflation environment, there will generally be small differences in pay settlements. We now consider developments in the three countries studied here.

THE UNITED KINGDOM

Introduction

5.5 million people were employed in the public sector in the United Kingdom in mid-1993. They constituted 21.8 per cent of the total workforce in employment at this time. 29 per cent of the public sector workforce were employed part time. 1.6 million were employed in Central Government in mid-1993, among whom 277 000 were in HM Forces and 530 000 were in those parts of the National Health Service that had not yet assumed trust status. A further 2.7 million were employed in local government, of which 1.2 million were employed in education. The detailed breakdown of the distribution of the public sector workforce in 1961, 1983 and 1993 is given in Table 2 below.

Table 2. **Public and private sector employment**
(thousands)

	1961	1983	1993
Total workforce in employment	24 457	23 624	24 949
Private sector	18 598	16 656	19 171
Work related gov't training programmes	0	16	321
Public sector	5 859	6 952	5 457
Public corporations	2 200	1 662	1 187
National Health Service Trusts	0	0	655
Other	2 200	1 662	532
General Government	3 659	5 290	4 270
Central Government	1 790	2 384	1 590
HM Forces	474	322	271
National Health Service ¹	575	1 227	530
Other	741	835	789
Local Authorities	1 869	2 906	2 680
Education ²	785	1 434	1 201
Social Services	170	360	398
Police	108	187	207
Construction	103	130	90
Other	703	795	784
Memorandum item:			
Grant-funded educational establishments			371

1. Figures include agency nurses temporarily employed in the NHS.

2. Universities; higher education establishments, grant-maintained schools and from 1st April 1993, further education and 6th-form colleges. All are classified to the private non-profit sector serving households in the National Accounts.

Note: For 1991 and 1992, figures for "premises related" staff in grant-maintained schools (cleaners, caretakers etc.) included in this total were estimated (3 000 in 1992).

Source: Pearson, N. (1994) "Employment in the Public and Private Sectors", *Economic Trends*, No. 483, January.

In the United Kingdom the reform of public sector pay has taken the three complementary forms of competitive tendering and the decentralisation and individualisation of pay. We now turn to discuss each of these in turn.

Competitive tendering

In the United Kingdom the process of contracting-out began in 1980 when direct labour organisations (DLOs) were required to compete with private firms for most of the construction and maintenance work of local authorities. Following the passage of the 1988 Local Government Act compulsory competitive tendering (CCT) was extended to refuse collection, catering, street cleaning and vehicle and ground maintenance in local government. The purpose of competitive tendering was to obtain better value for money.

In the National Health Service (NHS) the process of subjecting services to the scrutiny of contracting-out also began in the early 1980s and gained momentum in the middle eighties. Competitive tendering in the NHS focused on hospital catering, cleaning and laundry services. By 1986, 68 per cent of all health support services had been subject to competitive tendering with the vast majority of contracts won by in-house teams (see Hartley, 1990; Szymanski and Wilkins, 1993; Parker, 1990; and Domberger *et al.*, 1987). By early 1988, 80 per cent of cleaning contracts, 85 per cent of laundry contracts and 97 per cent of catering services contracts had been won by in-house teams (see Hansard, 1988).

The initial experience in local authorities was rather different. The process of contracting-out was, despite some highly publicised cases, much slower to take off. Few engaged in competitive tendering and even fewer went the further stage of contracting-out. Thus by the end of 1985 only two dozen councils had privatised street cleaning or refuse collection, and only half a dozen had contracted out school cleaning or the provision of school meals (see Ascher, 1987, p. 227). These represented little more than normal changes in the mode of service provision, and indeed several councils returned to in-house service provision over the same period. However, compulsory competitive tendering which began to take effect in late 1989, is estimated to have had a significant impact on the employment of manual workers from early 1989 onwards (see Local Government Management Board, 1992, 1993). Employment was reduced both as a consequence of unsuccessful bids by existing employees and as a result of labour shedding by successful in-house teams in an attempt to contain costs.

It might have been expected that CCT would also have had a restraining effect on the rate of growth of the real earnings of those manual workers still employed in local government and the NHS, but the evidence suggests that it was employment that bore the brunt of the adjustment. The evidence reveals that both the real hourly and real weekly earnings of manual workers in local government and the NHS grew rapidly in the period from 1985 to 1993.

Table 3 provides a broad overview of the annual rates of growth of real weekly earnings for men and women in both the public and private sectors of the economy over the period 1980 to 1993. In analysing these data, it should be borne in mind that weekly earnings, in particular for manual workers, depend on the number of hours worked. Table 3 reveals that the recession moderated the rate of growth of the real weekly earnings of both male and, to a lesser extent, female manual workers in the private sector after 1990, when they grew by 0.8 per cent and 2.0 per cent per annum, respectively, over each of the next three years. In contrast, the weekly earnings of male manual workers in local government and central government (over 80 per cent of manual men in central

government are in the NHS) grew by 3.1 per cent and 2.6 per cent, respectively, after 1990, while those of manual women in the same sector grew by 2.4 and 3.0 per cent per annum, respectively, in the same period.

Table 3. The annual rate of growth of real weekly earnings for manual workers in the United Kingdom

	1980-1985	1985-1990	1990-1993
MEN			
Central government	-0.7	0.6	3.1
Local government	-1.1	2.8	2.6
Private sector	0.7	2.2	0.8
WOMEN			
Central government	-0.9	0.9	2.4
Local government	1.1	3.0	3.0
Private sector	1.1	2.2	2.0

Source: Elliott, R.F. and Duffus, K. (1993), *Earnings in the Public Services: A Report to H.M. Treasury*, Appendix B.

Table 4. The annual rate of growth of real hourly earnings for manual workers in the public sector in the United Kingdom

		1980-1992	1980-1985	1985-1990	1990-1992
Local government					
Painters and bricklayers	Male	1.3	-0.4	2.1	3.5
Plumbers and carpenters	Male	1.5	0.4	2.2	2.9
Engineering craftsmen	Male	2.3	1.1	3.1	3.1
Gardeners and groundsmen	Male	1.3	-0.4	2.5	2.3
Caretakers	Male	1.3	-0.3	2.9	1.4
Cooks	Female	0.9	-0.5	1.2	3.6
Drivers	Male	1.1	-0.1	2.1	1.6
Home helps	Female	n/a	0.2	1.6	n/a
Cleaners	Male	n/a	0.3	1.1	n/a
	Female	n/a	0.9	2.2	n/a
Roadmen	Male	n/a	0.5	2.9	n/a
Kitchen staff	Female	2.3	1.3	2.1	5.3
General labourers	Male	n/a	-0.9	2.3	n/a
NHS					
Hospital porters	Male	0.5	-1.5	0.5	5.1
Kitchen staff	Female	0.6	-2.0	1.2	5.8
Cooks	Male	n/a	-2.3	1.5	n/a
	Female	n/a	-1.8	0.8	n/a
Cleaners	Female	0.8	-1.6	1.3	5.4

Source: Elliott, R.F. and K. Duffus (1995), "What has been happening to pay in the public service sector of the British economy? Developments over the period 1970 to 1992", forthcoming *British Journal of Industrial Relations*. An extended version of this article is also to be published as HM Treasury Occasional Paper No. 3.

A similar picture emerges from a more detailed analysis of the rate of growth of the real hourly earnings of the specific occupations most exposed to competitive tendering in the NHS and local government. Table 4 reveals rates of growth of real hourly earnings by employees in local

government in the range of 1.2 to 3.4 per cent *per annum* over the period 1985 to 1990 and between 1.4 and 5.3 per cent *per annum* in the two years after 1990. While the rates of growth of real earnings in the NHS are more moderate between 1985 and 1990, in the following two years three of the four groups shown enjoyed increases in real earnings in excess of 5 per cent *per annum*. Some caution must be exercised when interpreting these results, for there was a change in the system of occupational classification at this time and there are small differences in the groups of workers covered by some of these occupational groups before and after the change. Even allowing for the effects of this change, it appears that manual workers in the private sector have enjoyed far more moderate rates of real wage growth than the groups of public sector workers reported here, and so the policy of contracting-out does not appear to be narrowing the wage gap as anticipated. **Manual** workers in the public sector appear to have been able to protect their earnings at the expense of employment. However, these are preliminary results and the issue requires further research before the full impact of CCT on real earnings can be fully understood.

Decentralisation

The award of different pay settlements to groups of workers who **had** previously been covered by the same negotiating machinery, the first steps down the road to the decentralisation of bargaining, began in the civil service. During 1987 separate agreements were implemented for clerical and secretarial workers, executive officers, senior ranking civil servants (Grades 5-7), tax inspectors and scientists and engineers. The consequences of this for the **pay** settlements of these groups are shown in Table 5. Initially this led to an increase in the annual dispersion of pay settlements as measured by the coefficient of variation (the standard deviation of settlements divided the unweighted average size of settlement), but in recent years settlements have revealed less variation, and in the twelve months to April 1993 there was very little difference between the settlements awarded to the groups shown here.

Table 5. Pay settlements in the British civil service

(Nominal terms - annual percentage increase)	1987	1988	1989	1990	1991	1992	1993
Clerical & secretarial	7.5	4.3	4.3	9.2	8.0	7.6	4.8
Executive	6.0	8.6	4.5	5.2	12.9	8.0	4.1
Grades 5 - 7	2.1	4.8	7.3	10.8	8.6	6.5	4.3
Tax Inspectors	6.0	4.3	12.7	7.0	8.5	6.5	4.5
Engineers & scientists	6.0	7.3	4.5	10.2	8.5	6.5	4.5
Unweighted average	5.52	5.86	6.66	8.48	9.30	7.02	4.44
Coefficient of variation	0.47	0.49	0.65	0.56	0.55	0.49	0.06

Note: These are the settlements implemented in the twelve months to April in each of the years shown. Where more than one settlement was implemented within a twelve month period these have been aggregated.

Source: Elliott, R.F. and K. Duffus *What has happened to Public Service Sector Pay in the UK Economy*, Department of Economics, Occasional Paper, University of Aberdeen, 1994.

This was, however, just a first step. **and** subsequently responsibility for pay determination has been passed to **all UK** civil service departments and agencies. **This began** with the creation of executive agencies.¹ By July 1994 these covered 350 000 civil servants or about 60 per cent of the total number of employees in the civil service (see Appendices B and C).⁶ These agencies are set key

financial and quality of service targets and have greater financial and management freedom than government departments. On 1st April 1994, twenty-three of these, covering over 300 000 civil servants or around 50 per cent of all civil servants, assumed formal responsibility for the pay and conditions of their employees and in 1994 conducted their own pay negotiations. The largest of these are the Social Security Benefits Agency, Customs and Excise, the Employment Service and Inland Revenue. A full list of these is shown in Table 6. Table 7 lists a further thirteen agencies that also conducted their own pay negotiations for the first time in 1995, while Table 8 reveals that by March 1995 fifteen of the twenty-three agencies recorded in Table 6 had introduced new pay and grading arrangements, which covered over 168 000 civil servants,

Table 6. Organisations that Conducted their own pay negotiations in 1994

Agency	Number of employees
Social Security Benefits Agency	65 380
Social Security Contributions Agency	9 880
HM Land Registry	9 000
Customs and Excise	25 000
Defence Research Agency	9 270
Meteorological Office	2 500
Social Security Information Technology Services Agency	5 000
Royal Mint ¹	1 000
Agricultural and Development Advisory Services	2 300
Valuation Office	4 905
Scottish Prisons Service	4 600
Ordnance Survey	2 200
Employment Service	44 000
Health and Safety Executive	4 800
Prisons Service	38 005
Inland Revenue	61 000
Driver and Vehicle Licensing Authority	4 700
Vehicle Inspectorate	1 580
QEII Conference Centre	50
Driving Standards Agency	1 820
HM Stationery Office ¹	3 000
Fire Service College ¹	260
Forensic Science Service	600
Total	300 350

1. Trading fund

Source: H.M. Treasury.

Table 7. Organisations that conducted pay negotiations in 1995 for the first time

Agency	Number of employees
Child Support Agency	5 000 (eventually)
Highways Agency	2 300
Historic Scotland	635
Intervention Board	915
Meat Hygiene Service	1 300
PAYMASTER	770
Service Children's Schools (North West Europe)	870
War Pensions Agency	1780
NDPBs	
British Tourist Authority/English Tourist Board)
English Heritage)
Housing Corporation) not available
National Maritime Museum)
Natural Environment Research Council)

Source: H.M Treasury.

Table 8. Agencies that had introduced new pay and grading arrangements by March 1995

Agency	Number of employees
Inland Revenue	61 000
Employment Service	44 000
Customs and Excise	25 000
HMSO	3 000
ADAS	2 300
Royal Mint	1 000
HM Land Registry	9 000
Meteorological Office	2 500
Information Technology Services Agency	4 000
Ordnance Survey	2 200
Health and Safety Executive	4 800
Driver and Vehicle Licensing Authority	4 200
QEII Conference Centre	50
Forensic Science Service	600
Scottish Prisons Service	4 600
Total	168 250

Source: H.M. Treasury

The principles of Next Step agencies are now to be extended throughout the civil service. From April 1996 the pay and grading of all middle and junior level civil servants will be delegated to departments and the four national agreements that presently cover these staff will be scrapped (*The Civil Service: Continuity and Change*, 1994, pp. 25-27).

Decentralisation is also proceeding in the National Health Service (NHS), where most hospitals have now assumed trust status. NHS Trusts have the power to assume responsibility for the pay and conditions of their employees, although they may not offer them terms and conditions worse than they previously enjoyed before trust status.

In practice, the freedom to determine the pay and conditions of NHS staff that these new arrangements appear to offer has yet to be fully realised throughout most of the NHS, largely because the pay and conditions of doctors and nurses, which together account for almost 80 per cent of NHS Trusts' staff, are still largely determined by review bodies. In the past these review bodies have specified, in some considerable detail, both the pay structure and the size of the annual pay settlements that were to be awarded to the public sector workers covered by their remit. The most recent attempt by one of these bodies, the Review Body for Nursing Staff, to break with previous practice met with fierce resistance from the professional bodies representing nursing staff. The Review Body proposed to award a uniform 1.0 per cent increase to all nursing staff, but recommended that this be supplemented by a further increase, the size of which was to be determined in local negotiations (See Review Body on Nursing Staff, Midwives, Health Visitors and Professors Allied to Medicine, 1995). At the time of writing, it is still not clear whether the review body's recommendation will be implemented.

The individualisation of pay

Some progress has been achieved with the individualisation of pay. The whole of the civil service, agencies and the currently non-delegated "core" departments, have had some form of performance pay at least since 1992/93. Performance pay for a limited number of civil servants, generally those at their scale maxima, was introduced in 1988/89. This was expanded in 1992/93 when service-based incremental progression was abolished and performance pay introduced for all civil servants. Since 1990 a modest amount of merit pay has been awarded to university staff, and since 1987 teachers have received additional allowances to reward them for acquiring scarce skills or moving to areas of shortage. The late 1980s also saw special additions to pay introduced in the Civil Service and NHS for certain hard-to-recruit occupations while a 1989 report suggested that just under a quarter of the total number of local authorities in England and Wales had or planned to have performance pay schemes (Incomes Data Services, 1989). Several of the new civil service agencies have introduced performance-related pay schemes to meet their own needs.

In the civil service, these performance-related pay schemes determine the rate at which the pay of individuals advances, and in most cases these new performance-related pay schemes have replaced seniority-related pay schemes. For the most part, they offer the prospect of modest additions to basic pay, but over time these can accumulate to constitute a considerable proportion of total earnings. For example, at G7 level, performance-related pay averaged 4.7 per cent in 1995, and 4 per cent the year before. These figures are high, as not only has the money which used to be spent on seniority increments become performance-related, but pay settlements are also earned through performance, i.e. the CS has had no across-the-board (revalorisation) pay settlement since 1993. So all pay increases, of whatever form, are now performance-related.

As a result of both the first moves towards decentralised bargaining, with the abolition of the uniform pay agreement in the civil service, and the early moves towards the individualisation of pay, we might expect to find growing diversity in the rates of growth of earnings of those groups affected by these initiatives.

The impact of the reforms on pay dispersion

The overall dispersion of earnings in the public and private sectors of the British economy is reported in Table 9. This reveals that there has been a general increase in earnings dispersion in both the public and private sectors since 1985, with a widening of pay differences at both the top and bottom of the earnings hierarchy. In both sectors, earnings at the bottom decile have fallen relative to those at the median, while those at the top decile have increased relative to the median. The increase in the relative earnings of those employees in the private sector with earnings at the upper decile is most striking. Men earned 78 per cent more than the median in 1985, but this increased to 93 per cent more by 1993. The comparable figures for women in the private sector are 65 per cent in 1985 rising to 82 per cent more by 1993. In the public sector the increase is more modest and among men, and is concentrated in the period after 1990. The fall in relative earnings at the lowest decile is of the same order of magnitude in the public and private sectors and was most pronounced among women. Among both men and women these falls in relative earnings were concentrated in the period up to 1990.

The increase in the overall dispersion of pay in the public and private sectors reported in Table 9 reflects both the increased dispersion of earnings within each occupation and the increased dispersion of pay between different occupations. An increase in dispersion within occupations is likely to result from moves toward the greater individualisation of pay, while an increase in dispersion between occupations is likely to result from the decentralisation of pay and the associated increase in the number of separate bargaining groups that now negotiate different settlements. The decentralisation of pay bargaining could increase pay dispersion both between occupations within any sector of the economy and within a single agency where the agency now awards different settlements to different occupations. The implementation of new pay and grading systems in many agencies was initially accompanied by single table bargaining, one settlement covering all grades, but as they become more responsive to market pressures than previously, this will certainly have consequences for pay dispersion.

Table 9. The dispersion of earnings of full-time adult employees in the British public¹ and private sectors

(Weekly earning)		Public			Private	
		1985	1990	1993	1985	1993
Upper decile/median	Male	1.61	1.61	1.66	1.78	1.87
	Female	1.59	1.632	1.64	1.65	1.80
Upper quartile/median	Male	1.29	1.30	1.33	1.32	1.36
	Female	1.32	1.38	1.40	1.28	1.34
Lower quartile/median	Male	0.77	0.75	0.74	0.77	0.75
	Female	0.79	0.76	0.75	0.80	0.77
Lower decile/median	Male	0.63	0.60	0.60	0.60	0.57
	Female	0.66	0.62	0.62	0.68	0.64

1. This includes employees in public corporations

Source: *New Earnings Survey*, Table I, Part A., 1985, 1990 and 1993, HMSO, London.

The earlier move away from national, multi-employer bargaining in the United Kingdom private sector, and indeed within companies, to bargaining along separate product lines (see Brown, 1993) resulted in occupations that were previously covered by a single agreement being covered by

several different agreements which often, **but** not always, awarded different settlements. The abolition of the single central agreement for the civil service had, as Table 5 showed, the same effect in parts of the public sector. These developments were, however, underway far earlier in the private sector **and** thus we would expect to witness an increase in the dispersion of earnings among occupations arising from decentralisation from a rather earlier date in that sector.

Table 10 reports the proportion of the overall earnings dispersions that is accounted for by the dispersion of earnings between occupational groups in the public and private sectors shown. The remaining proportion is accounted for by the dispersion of earnings within each occupational group where the occupational groups are defined with some considerable precision at the three-digit level. **An** understanding of the level of detail at which the occupations underpinning this analysis **are** defined can be obtained by looking at Table 11, where the titles of some of these occupational groups are shown.

Thus Table 10 reveals that during a period when the overall dispersion of earnings was growing, **as** we have already seen in Table 9, the proportion of this growth **that** was accounted for by the difference between the mean earnings of each occupational group was growing. Thus a major part of the growth in earnings dispersion in both the public and private sectors between 1985 and 1990 was due to the fact that the average earnings of the different occupational groups in each sector were growing further apart. Because the growth in overall dispersion over this period **was** relatively modest in the public sector, the increase in the overall dispersion of earnings which is accounted for by the increase in dispersion between occupations amounted to almost four-fifths of the growth in pay dispersion.⁷ In other words only a very small **part**, one-fifth, of the increase in earnings dispersion in the public sector which occurred between 1985 **and** 1990 was due to a widening of pay dispersion within occupations.

Table 10. The proportion of total earnings dispersion that is accounted for by dispersion between occupational groups in the UK

		1985/86 ¹	1987/88 ¹	1989/90 ¹
Male				
<i>Public Sector</i>				
	Central government	48.0	50.2	51.6
	Local government	40.6	42.7	40.8
<i>Private Sector</i>				
	Manufacturing	24.0	25.3	26.2
	Services	31.7	34.5	35.0
Female				
<i>Public Sector</i>				
	Central government	40.5	39.4	45.5
	Local government	46.5	49.5	49.7
<i>Private Sector</i>				
	Manufacturing	24.4	27.5	30.6
	Services	31.3	33.3	34.4

1. The average over the two years.

A striking feature of Table 10 is the difference between the government and the private sectors in the share of overall dispersion that is accounted for by dispersion within occupational groups. In 1989 **and** 1990 for example, intra-group dispersion accounted for 73.8 per cent (100 minus 26.2 per cent) of overall dispersion for men in private manufacturing, compared to 48.4 per cent for men in central government; and for 69.4 per cent of overall dispersion for women in private

manufacturing, as distinct from 54.5 per cent for women in central government. A similar contrast could be drawn between private services and central government. Evidently, pay is much less equally distributed within any given occupation in the private sector of the British economy than it is in the public sector of the economy, as far as the occupations analysed are concerned (see table 11).

Of course, relatively few groups had by 1992 adopted any type of performance-related pay, but the 1988 pay agreement for Inland Revenue staff introduced a system of performance-related pay although it was somewhat limited. For staff below the scale maximum, only box 1s, the highest performers, received an award (an extra increment). At the scale maximum a number of range points were introduced: staff with a box 1 or two consecutive box 2s moved up one range point. Staff reaching the maximum could receive no more than 3 such performance awards while in the same grade.

The apparent impact of the scheme presented above is revealed in Figure 2.⁸ Prior to 1988 the dispersion of earnings among tax inspectors as described by the inter-quartile range narrowed continuously from 1980. In the two years subsequent to the agreement earnings dispersion increased sharply. However, in 1991 and 1992 it fell back equally sharply, so that dispersion in 1992 was little different from that in 1988. This may have been because the highest rewards became more equally disbursed as the scheme matured. 12 per cent of inspectors received the highest rewards in the first year, 1988. Some of these will have received rewards in year 2, but it might have been quite a different set of individuals who received the highest rewards in years 3 and 4.⁹ However, the analysis does not consider the nature of the performance pay system, which builds in a certain amount of "catch-up" as staff wait for consecutive box markings, nor that a significant group of staff (those below the scale maxima and not receiving a box 1 mark — possibly a majority of staff) would not qualify for performance awards, receiving seniority-based increments instead. Whatever lies behind the changes in the dispersion of pay reported in Figure 2, it seems unlikely that it could be variations in individual performance. For this to happen the worst performers in the first two years, those who received no performance-related pay award, would have had to improve their performance over the next two years to such an extent that they outstripped any continued improvement in performance by those who received the awards in the first two years. This seems unlikely. A more plausible explanation may be that considerations of equity placed restrictions on the effectiveness of the scheme and produced a quite different outcome than originally intended.

The dispersion of earnings among university academics is also of interest. Figure 3 reveals that after 1989 the upper decile of the earnings distribution rose sharply. While the top 10 per cent were earning 24 per cent more than the median in 1989, they were earning 40 per cent more by 1992. This may in part be due to the introduction of the system of discretionary merit payments in 1990, but these offered only modest additions to salaries. A more likely explanation is the lifting of the effective ceiling on professorial salaries that had existed in many institutions during the 1980s, for at the top end of the earnings distribution it will be these senior staff with whom we are concerned. One consequence of the research selectivity exercises conducted by the University Funding Council at the end of the 1980s was to promote a more active market for proven researchers. Universities became increasingly willing to pay higher salaries to attract or retain senior academics with a proven research record.

Figure 2. Male tax specialists

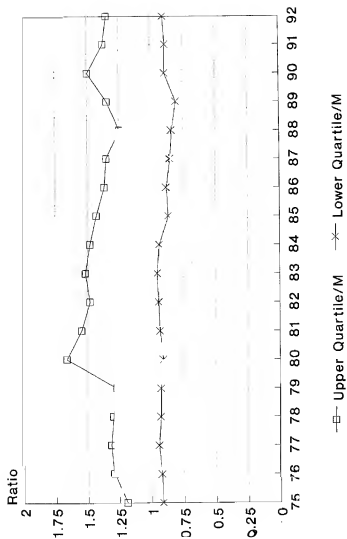
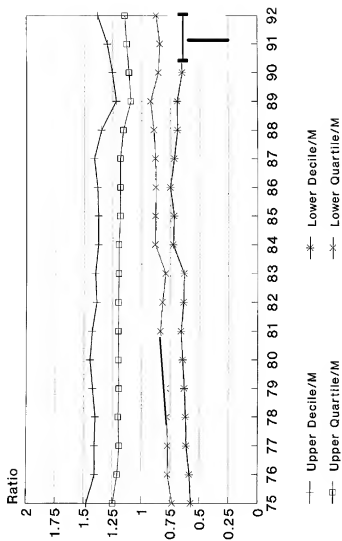


Figure 3 Male university academics



A broader picture of earning dispersion within a range of occupations throughout the British public service sector is reported in Table 11. At this detailed level there is some indication of a widening of dispersion within occupations. This seems to be the case among clerical and executive officers, the lowest administrative grade in the civil service, and clerks in local authorities. In all these cases earnings at the upper quartile increased as a proportion of median earnings between 1985 and 1992. There is, however, little evidence of any systematic developments elsewhere. For example, while the dispersion of earnings among primary school teachers has grown, that among secondary school teachers has narrowed. The dispersion of earnings has also narrowed among male hospital doctors and female nurses, although it has widened among female doctors and male nurses. Among the male police officers dispersion has also narrowed, while among the three manual worker occupations shown there is little evidence of any systematic pattern.

Overview

The decentralisation and individualisation of pay in the UK public service has developed fastest in the civil service. Performance-related pay was introduced for all civil servants in 1992 and decentralisation, introduced for some agencies in 1994 and 1995, takes full effect in April 1996 when responsibility for pay and grading passes to each individual department and agency. Civil service departments and agencies will be able to introduce grading structures and performance-related pay schemes best suited to their own individual circumstances — they cannot however move away from performance pay. Departments and agencies are required to show the Treasury that the new structures deliver value for money, within the constraint of frozen running costs. Tables 6 and 8 show that 15 of the 23 civil service agencies, granted delegation powers in 1994 and 1995, have already introduced their own pay and grading structures.

Progress within the rest of the public sector has been slow to develop, particularly the introduction of performance-related pay schemes. Within the health service a quarter of employees are on local NHS Trust contracts, though the terms and conditions for a majority of these workers currently shadow national agreements. The Review Body covering nurses and related professions has, for the past two years, recommended relatively low national awards to be topped up by local negotiations. A complicated formula allows for national salary scales to be raised annually to reflect the outcome of local negotiations in the preceding year. (A small number of local authorities have withdrawn from national pay bargaining.)

Public sector employees remain highly unionised, and while the power of some unions, most notably those in the civil service, has diminished, that of others, most notably those representing doctors, teachers, the police and nurses, has lessened very little if at all. Almost all unions representing public sector workers are still quite reluctant to the introduction of performance-related pay although some arrangements appeared recently.

Table 11. The dispersion of earnings for full-time government employees in certain occupations

		Men		Women	
		1985	1992	1985	1992
Welfare workers in local authorities	N	278	253	421	530
	(1)	1.149	1.137	1.219	1.185
	(2)	0.821	0.800	0.855	0.832
Clerks in local authorities	N	384	283	869	766
	(1)	1.216	1.252	1.155	1.221
	(2)	0.833	0.821	0.884	0.902
Civil service clerks	N	469	460	1147	
	(1)	1.132	1.208	1.078	1.119
	(2)	0.861	0.896	0.861	0.892
Civil service executive officers	N	292	369	241	418
	(1)	1.089	1.145	1.059	1.11
	(2)	0.945	0.913	0.976	0.936
Hospital doctors	N	261	318	82	121
	(1)	1.30	1.261	1.305	1.347
	(2)	0.741	0.735	0.788	0.847
Nurses	N	319	372	2054	2341
	(1)	1.175	1.21	1.278	1.227
	(2)	0.757	0.800	0.854	0.843
Primary school teachers	N	359	335	2227	2356
	(1)	1.112	1.141	1.071	1.109
	(2)	0.893	0.881	0.888	0.876
Secondary school teachers	N	1130	927	1044	1021
	(1)	1.121	1.078	1.158	1.138
	(2)	0.856	0.879	0.870	0.912
Police sergeants and constables	N	1062	964	89	133
	(1)	1.184	1.11	1.120	1.098
	(2)	0.887	0.896	0.884	0.847
Ambulancemen	N	143	142		
	(1)	1.110	1.079	--	--
	(2)	0.882	0.964		
Hospital porters	N	142	142		
	(1)	1.130	1.128	--	--
	(2)	0.854	0.861	--	--
Craftsmen in local authorities	N	109	59		
	(1)	1.148	1.140	--	--
	(2)	0.915	0.928	--	--

N = Number of employees

(1) = Salary at the upper quartile as a proportion of the median salary

(2) = Salary at the lower quartile as a proportion of the median salary

Source: New Earnings Survey, unpublished data for 1985 and 1992, a 1 per cent sample of employees.

AUSTRALIA

Introduction

The Australian public sector comprises the Commonwealth, state and local government sectors. In May 1993, 64.6 per cent of all full time adult employees in the public sector worked for state governments, 25.8 per cent for the Commonwealth government and 9.5 per cent for local government. Public sector employment accounted for around one-fifth of the labour force in Australia in 1990 and over the period from 1986 to 1990 grew by 2.4 per cent (see Tables 1 and 5 in OECD, 1994a).

Decentralisation

The Australian public service

The structural changes essential to any decentralisation of pay determination for federal employees have been underway in Australia for some considerable time. During the 1970s and 1980s, many government agencies were removed from the coverage of the Public Service Act, which specified uniform terms of pay and conditions for those employed in the core public service. Thus while in the 1950s some 70 per cent of Federal government staff were employed in organisations covered by the Act, less than 40 per cent were covered by 1993 (see Preiss, 1993).

On the budgetary side, the flexibility of departments was increased with the introduction of the Running Cost System (RCS) under the Financial Management Improvement Programme (FMIP) of 1984, which consolidated administrative and pay costs into a single-item cash limited appropriation.

The move to a more productivity-based system began in the later half of the 1980's. Following representations by the Australian Council of Trade Unions (ACTU), the Australian Conciliation and Arbitration Commission endorsed the concept of a two tiered system for wage increases: the first tier constituting a general wage increase for all wage and salary workers and the second, supplementary increases awarded principally for restructuring and efficiency. Under restructuring and efficiency provisions the old clerical structure of the APS, which comprised 100 classifications and 180 salary points, was replaced with eight levels and 43 salary points.

More recently, following agreement between the Commonwealth Government and Public Sector Unions in December 1992, workplace bargaining is being introduced into the Australian Public Service (APS). The agreement covered around 145 000 staff in the Australian Public Service and provided for a general salary increase of 4.9 per cent over the two year period of its operation. The 4.9 per cent provided an initial service-wide rise of 2 per cent from the date of certification of the agreement, together with two "economic adjustments" of 1.4 per cent and 1.5 per cent in March 1993

and March 1994, respectively. The initial 2 per cent ~~was~~ linked to a range of measures designed to improve productivity, among which were proposals on training and a target reduction in absenteeism of 20 per cent. The latter two increases were designed to compensate public sector unions for their agreement to pursue no additional claims and to exclude increases that might otherwise have arisen from other sources such as general wage increases [awarded by the Australian Industrial Relations Commission (AIRC)] to compensate for the rise in retail prices although they were not linked directly to rises in retail prices.

The agreement also enshrined the principles for agency bargaining. These proposed that each agency would bargain as a single centre but that service-wide pay and classification structures would be maintained. Consequently, any supplements to pay that resulted from agency agreements would not count for either transfer or promotions to a different agency.

An interesting aspect of the agreement is the proposal to pool productivity gains. Titled "gain sharing", this proposes a division of the gains from productivity improvements between the relevant agency and those agencies unable to generate such savings. The savings generated by the productivity improvements constitute the "agency productivity pool". These savings can arise from any or all of the following: savings in running costs achieved as a result of workplace reform measures; a proportion of savings in program costs and revenue enhancements arising from workplace reform measures; or a commercial body's improved trading performance attributable to workplace reform measures.

The agencies' share of the "agency productivity pool" (which nets out to around two-thirds) is available to the agency to be distributed to its staff in the form of improved remuneration or conditions. The remaining share of productivity savings is pooled at the service-wide level and used at the end of the agreement to fund a service-wide "foldback" mechanism designed to even-up base rates of pay in those agencies without an agency bargain (or whose bargain provides little supplementary pay). However, until drawn on to fund this foldback mechanism, the pooled money is to be used to offset the cost of the initial "temporary budget supplement" which financed the initial service-wide 2 per cent increase. The foldback mechanism is therefore the mechanism used to maintain the integrity of existing APS pay and classifications, that is to say it is designed to reduce the degree of variance in earnings among agencies that would otherwise result from full agency-level bargaining (Department of Industrial Relations, 1992).

Implementation

During the first year of the agreement progress was rather slow, but by November 1994 nineteen agencies covering 98 000 staff, or over two-thirds of APS employment, had concluded agreements that were certified by the AIRC. The Department of Industrial Relations in Canberra anticipated that around half of all agencies, covering about three-quarters of all staff, would be covered by agreements by the end of 1994. These agreements provided for further supplementary pay increases of between 2.8 per cent and 5 per cent for variable periods, most typically for two years, extending to end 1995. The eighteen-month to two-year agreements generally provided for increases of 3 to 4 per cent at staggered intervals, but greater diversity of outcomes emerged over time with some agreements for manual workers, for example that for drivers in DAS Comcar, which awarded increases at the upper end of the above range for periods of little more than five months.

Workplace bargaining is much more widespread outside the APS, in Commonwealth Government Business Enterprises (GBEs) and non-APS statutory authorities. Thus 201 237 or 99 per

cent of the staff employed in the non-APS statutory authorities were covered by enterprise agreements in August 1994. The agreements in the GBE's and non-APS statutory authorities provided increases ranging from 2.3 per cent to 16 per cent over periods from six months to three years, respectively.

State government

Reform at the state government level, which accounts for around 65 per cent of all public sector employment, has proceeded at an uneven pace, with a variety of different approaches being adopted. These range from framework agreements comparable to that in the APS to the negotiation of individual agency agreements in which all savings achieved by the agency are retained by the agency and their employees. The vast majority of state employees received a general salary rise of 2.5 per cent in the latter half of 1991, but since then employees in only five states have received an increase and a variety of different agreements have been struck, as shown in Table 12. These range from retention of service-wide increases with no scope for agency agreements (Northern Territory) to the ending of service-wide increases with increases only available at the agency level (South Australia). As a result there has been some variance in the growth of real earnings of state employees in the period since 1991.

Table 12. Public service pay increases in the Australian state sector since December 1992

New South Wales	4 per cent January 1994 and 3 per cent November 1994. Additional increases may result from enterprise bargaining.
Victoria	Offer of 3 per cent. Claim for 7 per cent in October 1994 and 4.4 per cent in May 1995.
Queensland	\$15 per week initial increase to all employees under Framework Agreement from 1st October 1994. Additional 1.4 per cent (8 months later) on certification of an individual agency agreement. Further increase of 4 per cent 12 months after second increase subject to implementation of productivity initiatives and achievement of performance indicators.
Western Australia	Three \$8 per week increases from September 1994. Enterprise bargaining expected to result in additional increase.
South Australia	No service-wide increases available. 3 year Framework Agreement allows increases only at the agency level as a result of workplace bargaining.
Tasmania	1 per cent from January and 1 per cent from October 1995 available to all workplaces who reach workplace agreement. Further increases are available at agency level as a result of savings.
ACT	2 per cent in December 1992, 1.4 per cent in March 1993 and 1.5 per cent in March 1994 under Framework Agreement (mirrors APS Framework Agreement). New 2 Year agreement to be certified shortly allows for 4.5 per cent over duration of agreement of which 1 per cent backdated to July 1994.
Northern Territory	4 per cent in March 1994 to last for 1 year 3 months. No scope for agency agreements or increases.

Source: Australian Public Service.

The individualisation of pay

Performance-based pay (PBP) has been introduced into only a small part of the Australian public service; it covers about 14 per cent of the Australian Public Service workforce. The PBP scheme, which covers senior and middle managers, was introduced as part of the APS Agreement in December 1992. The scheme is based on a system of performance appraisal, typically conducted on a 12-month cycle where officers were rated on a five-point scale running from "unsatisfactory" to "outstanding", with "fully effective" as the median. All officers rated as "fully effective" or better were to be paid a single lump sum bonus, the value of which ranged from 3.5 to 15 per cent of salary.

94.4 per cent of eligible officers were paid bonuses in the first round, with the bonus for the "fully effective" rating for officers in the same grade ranging from \$1 494 to \$6 400, depending on the agency in which the rating was given (see Senate Standing Committee on Finance and Public Administration, 1993). This inequity of treatment was the focus of comment in a critical report on the operation of the system by the Senate Standing Committee on Finance and Public Administration. The report led to further guidance on the operation of the scheme in an attempt to ensure that in the second round there was both greater consistency in the size of the bonus at each scale point and a reduction in the proportion of employees in receipt of such bonuses. The second round operation of the scheme is presently under way.

The evidence on the impact of these reforms on the wage structure in the Australian public sector is limited.

The impact of the reforms on pay dispersion

For the reasons identified earlier in the chapter, we might expect these reforms to have some impact on pay dispersion and the wage structure in the public sector. The data necessary to examine this issue in the detail we would wish are, however, not readily available. The data we have at our disposal neither distinguish among employees in the various parts of the public sector nor provide a sufficiently detailed occupational breakdown for the type of analysis we wish to undertake. This said, they provide an overview of developments during the period of reform.

The most recent information available on earnings is for May 1993, and the overall position for the public sector in Australia is reported in Table 13. This table compares developments over the period 1985 to 1993 in the public and private sectors. It reports the dispersion of earnings in the public and private sectors of Australia where the former includes Government Business Enterprises (GBE) as well as the APS and local and state government (collectively known as general government). In May 1993, 74.1 per cent of all full-time adult employees in the Australian public sector were employed in general government and 25.9 per cent in GBEs.

The earnings structure in the Australian public sector is more compressed than that in the United Kingdom. In 1993 the earnings of males at the upper decile of the public sector earnings distribution were 32 per cent greater than the median in Australia, compared to 66 per cent more than the median in the UK. At the lower decile, males in the Australian public sector earned 65 per cent of the median while males in the British public sector earned only 60 per cent of the median. The earnings structure for women employed in the Australian public sector is also compressed relative to that in the UK. Women at the upper decile of the earnings distribution earned 41 per cent more than

the median in Australia but 64 per cent more in the UK and at the lower decile 67 and 62 per cent of the median in Australia and the UK, respectively.

Not only is the overall wage structure more compressed than in the UK, but the women's wage structure is considerably more compressed than the men's in Australia while in the UK there is only a small difference between the two. General features of the wage determination systems in the two countries would seem to account for these differences, for it can be seen from a comparison of Tables 9 and 13 that the wage structure in the Australian private sector, while more dispersed than the public sector, is nonetheless still considerably narrower than in the British private sector. At the upper decile of the private sector earnings distribution in Australia, men earn 78 per cent more than the median and women earn 60 per cent more than the median; the corresponding figures for the UK are 93 and 82 per cent more, respectively. Again, at the lowest decile men earn 66 per cent of the median and women 74 per cent of the median in Australia while in the UK they earn, respectively, 57 and 62 per cent of the median.

Table 13. The dispersion of earnings of full-time adult employees¹ in the Australian public and private sectors (total weekly earnings)

		Public			Private		
		1985	1990	1993	1985	1990	1993
Upper decile/median ²	M	1.55	1.48	1.52	1.64	1.68	1.78
	F	1.45	1.42	1.41	1.41	1.47	1.60
Upper quartile/median	M	1.26	1.24	1.22	1.28	13.1	1.32
	F	1.24	1.24	1.24	1.17	1.21	1.23
Lower quartile/median	M	0.80	0.79	0.78	0.81	0.78	0.78
	F	0.84	0.83	0.81	0.88	0.85	0.85
Lower decile/median ²	M	0.67	0.66	0.65	0.79	0.67	0.66
	F	0.74	0.73	0.67	0.75	0.77	0.74

1. All employees.

2. The dispersion of earnings in the two sectors at the upper and lower deciles is calculated using an estimate of earnings at the upper and lower deciles (see Appendix A).

Source: See Appendix A.

Since 1990 there has been a modest increase in the dispersion of earnings in the Australian public sector. However, it is noteworthy that this followed a period during which the public sector earnings structure seems to have narrowed, and since there appears to be no corresponding narrowing in the Australian private sector it is difficult to attribute this to economy wide policies such as those embodied in the series of generalised measures of wage restraint known as "The Accord". The narrowing over the period from 1985 to 1990 occurred at the top of the public sector earnings distribution and was most substantial in the case of men, who are likely to comprise a majority of the employees at this point of the earnings distribution. Quite why this compression at the top of the earnings distribution occurred during this period is not easily explained, but it is clear that, given a slowly widening dispersion of earnings in the private sector, this narrowing had to be reversed as the public sector was becoming increasingly less competitive in the market for senior managers and administrators.

The reversal of the narrowing over the subsequent three years and the introduction of the system of performance-based pay in 1993 may have gone some way toward reducing the magnitude of the deterioration in competitiveness after 1990, although it would appear that this deterioration

continued until at least 1993. Employees at the upper decile of the earnings distribution in the private sector saw their earnings improve relative to the private sector median by 10 percentage points for males and 13 percentage points for females, while in the public sector the corresponding figures were +4 and -1 percentage points for males and females, respectively. Dispersion therefore increased much more rapidly in the private sector of the economy than it did in the public sector after 1990 and it is therefore evident that the deterioration in the relative pay of the most highly paid public servants continued after 1990.

One other feature of the changes that occurred in the dispersion of earnings in the Australian public sector over the period 1985 to 1993 is noteworthy. There appears to have been a relative deterioration in the earnings of women both with respect to males in the public sector and with respect to both men and women in the private sector. The earnings of those women at the top decile of the public sector earnings distribution declined relative to the median over the period 1985 to 1993, while those of men in this sector recovered in the period 1990 to 1993 after declining over the years 1985 to 1990. As we saw above, the relative earnings of both men and women at the same point in the earnings distribution in the private sector improved steadily over the entire period, and thus the earnings of women at the top decile of the public sector earnings distribution deteriorated even more markedly relative to the private sector than did those of men in the public sector. At the other end of the earnings distribution the earnings of women at the lower decile declined from 74 per cent of the median to 67 per cent over the eight years while those of men in this same sector declined less sharply, from 67 per cent to 65 per cent over the same period. Again, in the private sector there was a deterioration in the relative earnings at the lower decile but among women this was more modest than in the public sector, and so again the relative earnings of women in the public sector have declined.

The modest widening in the public sector earnings distribution in Australia could be due to either an increase in the dispersion of average earnings between occupations or an increase in the dispersion within occupations or both. Data on the dispersion of earnings within specific occupations in the Australian public sector, which is reported in Table 14, suggest that the overall widening may well be due to an increase in the dispersion of earnings among occupations, because there has been very little change over the period 1990 to 1993 in the dispersion of earnings within the broad occupational groups shown in Table 14. The only slight movement appears to be a reduction in earnings at the lower quartile for the two least skilled groups: plant and machine operators and drivers, and labourers.

At this more detailed occupational level the wage structure in the Australian public sector looks extremely stable, and indeed that is the most prominent feature of the public sector wage structure in Australia over the last half of the 1980s and early 1990s. But of course it was some time before the main impact of the reforms detailed above had been felt, and we might therefore predict that, as a result of the move to agency bargaining, the diversity of practice at the state level and the introduction of performance-based pay for some employees, such stability is likely to be a thing of the past.

Table 14. The dispersion of total weekly earnings of full-time adults, by occupation in the Australian public sector

	1990		1993	
	Upper quartile/median	Lower quartile/median	Upper quartile/median	Lower quartile/median
Managers and administrators	1.17	0.87	1.16	0.88
Professionals	1.16	0.86	1.13	0.88
Para-professionals	1.16	0.85	1.17	0.86
Trades-persons	1.22	0.90	1.23	0.87
Clerks	1.20	0.86	1.20	0.86
Salespersons and personal service workers	1.22	0.85	1.23	0.84
Plant and machine operators and drivers	1.23	0.82	1.24	0.80
Labourers and related workers	1.19	0.90	1.24	0.88

Note: All employees.

Source: Table 7 of *Distribution and Composition of Employee Earnings and Hours in Australia*, 1990 and data for 1993 supplied by the ABS.

Overview

Australia has sought to protect the integrity of the APS pay and classification (grading) structures by providing service-wide pay increases (including those awarded via the foldback mechanism) and maintaining service-wide grade and classification structures. The declared intention is to maintain a unified integrated public service with due regard to stability and equity of reward, principles that have always figured prominently in the deliberations of the Australian Industrial Relations Commission. However, it is likely that agencies will reveal differing degrees of enthusiasm and scope for changes in work organisation, job design, working patterns and working arrangements, and that agency agreements will differ in the size of the rewards they offer. If these differences cumulate the unified public service will prove difficult to sustain.

It must also be remembered that the majority of public service workers are employed by state governments, and there has recently been considerable variation in the degree of decentralisation they have undertaken. On the face of it one state appears to have abandoned the notion of a state-wide unified public service, for it no longer provides any service-wide pay increases. However, a unified service could still be retained by the back door if separate agencies in this state strike very similar deals with their employees, and this must be a prospect given the highly institutionalised nature of the wage determination process in Australia. Indeed, the institutionalised nature of the wage determination process may still frustrate the strong drive toward the decentralisation and individualisation of pay at both the APS and the state level.

SWEDEN

Introduction

The Swedish public sector has slowly contracted in size in recent years. Total employment has fallen ~~from a peak~~ of over 1.5 million ~~in the~~ mid-1980s to around 1.3 million in 1993, and while the share of public expenditure in GDP ~~has~~ continued to climb, until it now equals almost 70 per cent, this is attributable to the growth in transfer payments, not to the growth in the public sector wage bill ~~as~~ in the past.

Table 15. Employment in the Swedish public sector
(thousands)

	1985	1993
All public sector	1 546 000	1 347 818
<i>of which:</i>		
State government	468 000 ¹	353 528
<i>of which:</i>		
Armed forces and public corporations	200 000	190 000
Administration	268 000	163 528
County councils	380 000	247 774
Local authorities	660 000	746 516 ¹

1. Teachers transferred from state government to local authorities during this period.

Source: State Agency for Government Employers.

The Swedish public sector is divided into the state and local government sectors. A breakdown of the functions of each sector is shown in Table 16. In 1993 the local government sector comprised 286 local authorities and 21 county councils employing 730 000 and 320 000 employees, respectively. The state sector comprised more than 200 agencies employing 260 000 people, and these agencies were directly responsible to the government. The agencies vary substantially in size, the largest employing several thousand people and the smallest, fewer than 10. Several of the larger agencies are responsible for smaller regional agencies. Thus for example the National Labour Market Administration (NLMA) agency is responsible for 24 regional county labour boards, which are also agencies, and these are responsible for a network of 340 employment offices. The NLMA has a small central administration of only 500 employees, and while the 24 regional county labour boards employ a further 2 000, the bulk of employees (7 000) are to be found in the local employment offices. Uniquely of the three countries studied here, the local government sector in Sweden also includes the Church of Sweden, which employs 25 000 people.

Table 16. The breakdown of functions in the Swedish public sector

The state	Local authorities	County councils
Foreign service	Child care	Physical and mental health care
Defence	Care of the elderly	Public dental care
Police and courts	Social support	Nursing training
Higher education and research	Compulsory and upper secondary schools	Regional communications
Special schools	Local building planning	
Motorways and long distance communication	Local communications	
Labour market services	Recreation and culture	
Housing services	Fire and rescue services	
Social security	Water and sewage	
National cultural institutions		
Development supervision		

The state sector also includes a number of government business enterprises, principal among which are the Swedish State Power Board (*Vattenfall AB*), the Swedish Forest Service (*AssiDomän AB*), the National Telecommunications Administration (*Telia AB*), Sweden Post (*Posten AB*) and the National Board of Public Building (*Vasakronan AB*). These enterprises have recently been converted into companies but are still state-owned. In total there are around 50 state-owned companies employing a further 200 000 employees.

Decentralisation

Pay is determined in both the public and the private sectors within a common legislative framework. The government no longer has any direct influence on the contents of the collective agreements that establish the pay and conditions of service of government employees. Instead, an independent body, the National Agency for Government Employers (*SAV*), is the supreme employers' council negotiating on behalf of the government agencies. At the local authority and county council level, the Swedish Association of Local Authorities and County Councils negotiates on behalf of employers in these areas, with the two bodies generally co-ordinating their activities. **Three main** trade unions, the Swedish Trade Union Confederation (*LO*), the Central Organisation of Salaried Employees (*TLO*), and the Swedish Confederation of Professional Associations (*SACO*) represent public sector employees in these negotiations, and between 85 and 90 per cent of employees are trade union members.

Agencies have been an administrative feature of the Swedish state for several decades, but only recently have they assumed the devolved powers over budgets and pay that we now associate with this administrative form. Decentralised wage negotiations started on a small scale in 1977 when the central agreement for the first time included provision for small reserves ~~that~~ could be distributed following local negotiations with trade unions. However, the highly centralised system of wage determination was formally abandoned in 1989 when the National Agency for Government Employers (*SAV*), in agreement with the trade unions, introduced a system of individual and differentiated pay.

Until July 1993, central agreements covering pay and conditions existed, as they did in the private sector of the Swedish economy, but they no longer specified either rates or pay or general

salary increases. Instead, they determined the size of a pay fund for each agency or area of government, out of which came the pay increases that were agreed. The size of these pay funds was determined through negotiations between the National Agency for Government Employers and the public sector union, which referenced general macro-economic conditions and other general arguments, but which also took account of both the average pay of the employees covered by the fund and the age, gender and qualifications of these employees. These centrally negotiated funds were then transformed into pay increases at the individual level through local negotiations (see Schager, 1993, p. 117). This process was temporarily suspended in 1992 as part of a general macroeconomic stabilisation agreement.

From July 1993 this system was replaced by a system of cash limits — “FrameGrants”. The increase in these grants is determined by procedures outside the collective bargaining system, and the size of these grants, together with the magnitude of the other administrative costs of the agency that must be financed out of the grant, will determine the amount available for pay. The grants are increased periodically with reference to an indicator that is based on, but that does not automatically increase in line with, wage changes in the private sector. Frame grants may be increased by either a larger or smaller amount consequent upon a political decision to either expand or contract activity in the area.

The most recent central agreement for public employees stipulated the size of a minimum increase that was to be awarded to all public sector employees in January 1994. The amount of the increase was 255 SK per month, an amount roughly equal to 1.5 per cent of average pay. This 255 SK was the minimum that could be awarded out of a sum of 380 SK per employee or 3 per cent of the average salary in December 1994 (whichever was the larger) that had been set aside for pay increases — that is, placed in a “pay kitty” — as a result of the central negotiations. Subject to all employees receiving at least 255 SK per month, the distribution of the pay kitty was to be decided in local negotiations in which the agency was free to negotiate changes in pay and other conditions of employment.

These local negotiations are often quite protracted, with the result that they carry on beyond the centrally fixed date for the implementation of the new pay rates. In October 1994, several agencies had still to complete negotiations although the implementation date for the new pay rates was the 1st January 1994. As a result, the annual September survey of employee earnings frequently fails to capture the full impact of the pay negotiations conducted during that year, while, because negotiations are sometimes more protracted in one year than the next, year-on-year comparisons of actual earnings will reveal greater fluctuations in earnings than the wage-setting process will ultimately produce. For this reason while a statistical series reporting the percentage increase in actual earnings over the twelve months to September each year is produced, a revised earnings series that takes account of the outcome of the pay negotiations conducted during the year once all negotiations have been completed is also produced. A comparison of the two series as reported in Table 17 below reveals that the figures can vary quite dramatically between the two series as a result of this feature of the collective bargaining system.

Table 17. Earnings growth in the Swedish government sector for salaried employees

	1987*	1988*	1989	1990*	1991	1992	1993
Actual earnings at survey date	75	5.0	13.3	14.3	5.9	1.4	5.5
Adjusted earnings	25	7.0	11.6	10.4	4.3	3.9	2.7

1. The date of the survey has varied over the years prior to 1990, since when they have been held in September of each year. The figures for 1987, 1988 and 1990 represent the change over 9 months, 8 months and 18 months, respectively. All the rest are annual percentage increases.

It is clear from Table 17 that the rate of pay increase has moderated over the most recent period and that the effect of local negotiations on average earnings growth is now quite substantial, because in recent years the rates of change in the two series is quite different. However, details of the wage settlements awarded by the separate agencies are not available at this time but when available it will be important to analyse such data to distinguish the degree of dispersion of settlements that now emerge. Given the prominent role of trade unions in the wage negotiations in Sweden, it would not be surprising to find patterns emerging perhaps dictated by a leading bargain which is then replicated in other agencies. Much will depend on the response of trade unions and of the employees they represent.

It has been remarked of the system that existed between 1989 and 1993 that "pay increases for individual employees (are) generally thought to follow the existing distribution of pay levels" (Schager, 1993, p. 117), in which case the wage structure would likely be slow to change. However, the new system offers new opportunities. The scope that now exists for local bargaining and the prospect that in the future the proportion of the pay kitty distributed as a general wage increase will diminish offer the prospect of greater variance in the size of pay awards. It is, of course, too early to distinguish the full impact of these reforms, for they and the system of budgetary control, "frame grants", are still in their infancy, but the mechanisms are now in place for a fully decentralised system of pay determination.

The individualisation of pay

Underpinning the system is a detailed system of classification-by-position in which the position of every salaried employee is classified within one of more than 100 occupational families. Each of these is then further divided into seven "levels of difficulty", where the "level of difficulty" is defined with respect to the degree of autonomy the worker has in the performance of the job, the complexity or range of tasks performed, the extent to which the job involves the management of personnel and the experience and know-how required. The system, which is known as the TNS system, was introduced in 1990 and is comparable to the occupational classification system that existed in the private sector, where it was known as the BNT system. Indeed, one motivation for the introduction of the TNS system was to facilitate more direct comparisons between work done in the two sectors and to align pay more closely in the two sectors. Just how long it can continue to perform its task is, however, a matter of some concern, for the strong drive toward decentralisation in the private sector has resulted in BNT falling into disuse.

The TNS system requires detailed records of the occupational family to which each public servant belongs, together with the level of difficulty assigned to their jobs. Hence it records the salary point of each public servant, and it can therefore be used to calculate quite precisely the wage bill and to evaluate the consequences for the wage bill of any pay award based on different criteria. However,

it has taken time to introduce the system and its introduction has encountered resistance from some quarters, namely the police, prison officers and judiciary, who are still paid under incremental scales.

The impact of the reforms on pay dispersion

To date, the evidence as to the impact of these reforms on the dispersion of individual earnings is mixed. Schager (1993) reports that between 1985 and 1990 the dispersion of pay (as measured by the difference between the upper and lower quartiles divided by the mean) for workers in the government sector increased from 20 to 28 per cent, while over the same period the dispersion of earnings in the private sector increased from 39 to 42 per cent. Evidently earnings dispersion in the government sector grew quite sharply between 1985 and 1990, and as Part A of Table 18 reveals, that was due to both an increase in relative earnings at the upper quartile of the earnings distribution and a reduction in relative earnings at the lower quartile. However, Table 18 also reveals that in 1991 and 1992 there are some reversal of these developments, although 1993 again saw an increase in relative earnings at the upper quartile.

Table 18. The dispersion of earnings in the government sector in Sweden

	1985	1990	1991	1992	1993
Part A					
Government sector					
Upper quartile/lower quartile	1.31	1.36	1.31	1.31	1.34
Upper quartile/median	1.18	1.18	1.18	1.18	1.20
Lower quartile/median	0.91	0.86	0.89	0.91	0.91
Part B					
Government sector	20 %	28 %	--	--	--
Private sector	39 %	42 %	--	--	--

Sources: Part A, Table 6, from *Trends in Public Sector Pay, 1995 Edition*, OECD, Paris, 1995.

Part B, Table 1 in Schager (1993), the difference between the upper and lower quartile divided by the median.

An analysis at the more detailed occupational level from 1985 to 1993 as reported in Table 19 reveals fairly modest changes in the dispersion of earnings within the selected, but principal, occupations in the Swedish state and county council sectors. For the most part there has been relatively little change in earnings dispersion, as measured by expressing earnings at the upper quartile and at the lower quartile of the distribution of earnings in each occupation as a percentage of median earnings in that same occupation. There is certainly no real evidence of changes in dispersion that would prove statistically significant. There is, however, a suggestion that earnings among the most highly paid occupations reported here became more widely dispersed over the period, thus the earnings at the upper quartile have increased relative to the median among senior administrators, senior executive officers, headmasters and professors in the state sector, and among senior doctors employed by county councils. In contrast, there appears to have been no change in dispersion among primary and secondary school teachers and customs officers and among the manual grades represented here.

**Table 19. The dispersion of earnings for full-time government employees
in certain occupations in Sweden**
(Monthly salary including supplements)

		Men		Women	
		1985	1993	1985	1993
Government (state) sector					
Senior Administrator	N	109	108	5	26
[Generaldirektör]	(1)	1.09	1.12	--	1.09
	(2)	0.95	0.91	--	0.94
Police Inspector	N	6 549	5 292	216	372
[Polisinspektör]	(1)	1.06	1.06	1.07	1.07
	(2)	0.95	0.95	0.96	0.93
Police Constable	N	5 679	6 669	516	1146
[Polisassistent]	(1)	1.05	1.05	1.05	1.06
	(2)	0.96	0.95	0.94	0.94
Postman	N	10 074	6 184	2 190	2 810
[Postiljon]	(1)	1.04	1.03	1.04	1.05
	(2)	0.93	0.93	0.91	0.92
Senior Postman	N	3 083	5 456	232	1 243
[Postiljon-Förste]	(1)	1.03	1.07	1.02	1.07
	(2)	0.98	0.96	0.98	0.97
Professor	N	1 442	1 725	81	136
[Professor]	(1)	1.08	1.11	1.10	1.13
	(2)	0.90	0.92	0.94	0.95
University Lecturer	N	1 441	1 761	204	345
[Universitetslektor]	(1)	1.08	1.11	1.08	1.07
	(2)	0.90	0.92	0.94	0.94
Executive Officer	N	6 288	3 893	1 607	3 394
[Byrådirektör]	(1)	1.07	1.09	1.06	1.09
	(2)	0.94	0.92	0.95	0.93
Assistant (Clerical)	N	6 801	2 103	43 105	15 042
[Kontorspers Bitr]	(1)	1.07	1.08	1.05	1.07
	(2)	0.95	0.93	0.96	0.94
Senior Executive Officer	N	3 910	5 096	484	1 452
[Ävdelningsdirektör]	(1)	1.07	1.13	1.05	1.13
	(2)	0.90	0.90	0.95	0.91
Repairman	N	4 533	4 368	93	72
[Reparatör]	(1)	1.05	1.07	1.06	1.08
	(2)	0.95	0.95	0.93	0.95
Customs Officer	N	1 404	768	110	461
[Tullassistent]	(1)	1.05	1.05	1.06	1.05
	(2)	0.96	0.94	0.96	0.96
Teacher: Prim. Gds. 1-3 ¹	N	222	382	12 257	17 471
[Lägstadielärare]	(1)	1.07	1.07	1.08	1.06
	(2)	0.91	0.92	0.92	0.93

Table 19, *cont.*

		Men		Women	
		1985	1993	1985	1993
Teacher: Prim. Gds. 4-6'	N	6 270	5 555	7 872	11 113
[Mellanstadie lärare]	(1)	1.08	1.09	1.12	1.10
	(2)	0.89	0.92	0.93	0.93
Teacher: Sec. Gds. 7-9'	N	13 027	13 567	10 067	13 007
[Adjunkta Grund]	(1)	1.08	1.08	1.05	1.03
	(2)	0.93	0.95	0.90	0.93
Teacher: Vocational Sec.'	N	5 829	4 093	404	1 628
[Yrkeslärare]	(1)	1.11	1.09	1.13	1.07
	(2)	0.87	0.92	0.88	0.93
Telecommunications ²	N	15 836	0	1 845	0
[Teletekniker]	(1)	3.038	0	1.034	0
	(2)	.955	--	.949	--
Railwayman ³	N	4 972	1 729	973	412
[Järnvägsexpeditör]	(1)	1.04	1.05	1.06	1.06
	(2)	0.94	0.95	0.93	0.94
Headmaster'	N	1 881	1 626	235	1 126
[Rektor]	(1)	1.04	1.07	1.04	1.09
	(2)	0.96	0.93	0.96	0.93
County Councils					
Senior Doctor	N	2 628	4 237	487	1 210
(Överläkare)	(1)	1.09	1.12	1.10	1.09
	(2)	0.91	0.92	0.96	0.94
Senior Doctors	N	1 393	768	502	426
(Överläkare Båratarde)	(1)	1.09	1.10	1.09	1.09
	(2)	0.94	0.92	0.97	0.94
Junior Doctors	N	1 358	1 595	454	865
(Avdelningsläkare)	(1)	1.10	1.13	1.10	1.11
	(2)	0.91	0.91	0.93	0.92
(Underläkare Med 2)	N	2 269	1 579	1 355	1 308
	(1)	1.11	1.12	1.10	1.10
	(2)	0.94	0.92	0.95	0.94
(Underläkare Mnst 9/fej legitimerd)	N	1 288	904	883	811
	(1)	1.18	1.19	1.21	1.18
	(2)	0.92	0.91	0.97	0.96
Nurses	N	2 135	2 246	19 116	18 720
(Sjuksköt/Barnmorska/Ass)	(1)	1.04	1.06	1.04	1.05
	(2)	0.95	0.95	0.96	0.95
District Nurse	N	118	117	3 116	3 126
(Distriktsköterska)	(1)	1.03	1.03	1.02	1.03
	(2)	0.98	0.98	0.98	0.98

1. Transferred from Central government to primary local authorities between 1985 and 1993.

N = Number of employees.

(1) = Salary at the upper quartile as a proportion of the median salary.

(2) = Salary at the lower quartile as a proportion of the median salary.

2. Telecommunications are no longer included in the statistics because they transferred to private sector for accounting purpose although they are still a public enterprise.

3. Numbers have fallen because a large part of the railway system, the train operators, are no longer included.

Sources: 1985: Statens ställning, 1985, Del 1., Sveriges Officiella Statistik. 1993: Am 50 SM 9401 Tabell 3 and Am 52 SM 9401, Tabell 7, Sveriges Officiella Statistik

It is difficult to contrast the dispersion of earnings within occupations in Sweden with that in other countries, although Table 11 reported a similar level of detail for the dispersion of earnings in selected occupations in the public sector in the UK. One of the reasons is, of course, that the structure of occupations differs between countries, thus in Sweden there are three main pay grades for primary and secondary school teachers, while the United Kingdom has two. However, while dispersion is slightly less in Sweden within each grade, when allowance is made for the extra grade the dispersion across the three grades in Sweden looks little different from that across the two in the United Kingdom. As a generality it would seem that the dispersion of pay within an occupation in Sweden is slightly narrower than in the United Kingdom, but it is not substantially so.

Overview

As with the other countries studied here, it is too early in the life of these reforms for any definitive conclusion to be drawn with respect to the impact of these reforms on pay dispersion. The system has changed dramatically on at least two occasions since 1989, and the first round of negotiations under the new system has only recently been completed. It is not yet clear by how much the wage settlements awarded to different occupational groups and to individuals have differed since the move to agency bargaining, nor yet how this has affected the dispersion of earnings. However, Sweden, like Australia, has chosen in these early years of decentralisation to maintain some element of equity in pay growth by the award of a centrally negotiated minimum settlement to all employees, and this will go some way to reducing the dispersion of pay. However, with the TNS job classification system it has also constructed a mechanism that facilitates direct comparisons between public and private sector pay, and if the trend toward greater dispersion of pay in the private sector continues we might expect to find this reflected in the greater dispersion of pay in the Swedish public sector in the future. Clearly more information is required before we can appropriately evaluate the Swedish reforms, but some growth in the dispersion of pay seems a likely outcome of these reforms.

CONCLUDING REMARKS

This study has looked at the early experience of the decentralisation and delegation of pay bargaining in the public service in three quite different countries: Australia, Sweden and the United Kingdom. Prior to the reforms we have analysed in the preceding pages, all three countries had highly centralised and co-ordinated arrangements for determining the pay of public sector employees. All three countries have now chosen to delegate responsibility for pay to either existing or newly formed agencies, and all three countries have introduced controls on the running costs of these agencies.

It remains to be seen whether these countries will allow agencies the freedom to determine the size of their pay bills subject to the overall controls on running costs, and accept the growing dispersion of pay that would likely result. At least initially, two countries, Sweden and Australia, have chosen to rely on centralised negotiations to determine the rate of growth of the pay bill, and while the United Kingdom has chosen, for the moment, to monitor developments, it is not inconceivable that a future administration might choose to play a more active role in wage negotiations at the agency level. These are early days and it is difficult to predict at this time precisely how the system will evolve in each country.

One major advantage of decentralisation and of delegated responsibility for pay is that it encourages, perhaps even forces, management to develop a reward strategy that is consistent with an agencies' wider strategic goals. Indeed, delegating responsibility for pay to agencies may be viewed as a mechanism for stimulating agencies to develop an explicit and consistent set of strategic goals: to ask themselves what "business" they are in and how best they might serve their customers.

The United Kingdom has chosen to permit agencies to develop their own quite separate pay and grading structures. An advantage of this particular approach is that it is the agency and not government service as a whole that becomes the focus of the career aspirations of employees. Individuals are thereby encouraged to develop and acquire the specific skills and expertise that are essential to a successful career in the agency, and to invest less in those skills that are essential to a career in the civil service as a whole. One consequence of the efficiency agenda driving the pay reforms in the United Kingdom would seem to be that this will lead to a less unified civil service than in Australia, and perhaps Sweden, at least for the moment. Indeed, Australia has chosen a set of arrangements designed quite deliberately to protect the integrity of a unified civil service. It remains to be seen to what extent this will compromise the achievement of and negate some of the benefits of a decentralised system.

Finally it has to be noted that the process of decentralised pay determination contains many dangers that may only become apparent two or three years down the road. The first of these is the real chance of wage inflation. Controls on running costs alone will be unable to prevent some, perhaps many, agencies from choosing to trade-off high wage settlements for lower employment. Those government agencies with remote or uninterested customers, (for example the tax authorities) may be able to trade-off wage awards for their employees for lower employment. Even though this

latter may result in a deterioration in the quality of the output of the agency, it may prove difficult to distinguish that this is happening and it may be still more difficult to build in checks to prevent this from happening. In the United Kingdom, this danger is recognised and was addressed in 1995 by the Chancellor's statement on public sector pay, stating that the efficiency savings that are achieved should not all be distributed in higher pay but they should also help to finance better services. The consequences of this statement have yet to be revealed.

The danger then might be that the employees in other agencies, although less well placed to do so, may try to follow these examples and secure for themselves similar pay awards. The dangers will be all the greater where trade unions realise the opportunities that decentralisation presents and target particular agencies to secure attractive "key" settlements, which they then generalise to the rest of the public sector workforce. This has certainly been a tactic that was successfully employed by private sector unions in the United Kingdom and USA in the 1960s and 1970s, and although unions in the private sector may no longer be in a position to employ these tactics this cannot be said of the public sector. Recent experience in the United Kingdom would tend to show in many cases the opposition of occupational groups (doctors, teachers, the police and nurses) to performance pay and decentralised pay bargaining.

A critical feature of all three countries studied here is the strength and incidence of trade unionism in the public sector. It would be interesting to analyse the impact of decentralisation on industrial relations in the future and what changes may occur in the process.

Appendix A

Estimated weekly earnings of full-time adult employees at the upper and lower deciles of the distribution of pay in Australia in 1985, 1990 and 1993¹ (dollars)

		Public	Private	Public	Private	Public	Private
Upper decile	M	670	630	857	925	1050	1050
	F	530	430	725	630	860	750
Median	M	466.1	421.6	586.2	546.1	685.5	591.6
	F	386.4	320.7	503.9	421.8	601.4	474.3
Lower decile	M	290	270	390	370	450	390
	F	270	230	370	330	410	350

1. The mid-point of the earnings range within which the relevant deciles fall was used in these calculations.

Source: Australian Bureau of Statistics, *Distribution and Composition of Employee Earnings and Hours - Australia*, May 1990 and May 1993, 7 (pp. 21, 22, 24, and 25) and 5 (pp. 24 and 25) respectively, and data supplied by the ABS.

Appendix B

Next Steps	Executive agencies established as of 7 December 1994	Staff
Accounts Services Agency		90
ADAS		2 165
Army Base Repair Organisation	²	3 705
Building Research Establishment		690
Cadw: Welsh Historic Monuments		230
Central Office of Information	³	510
Central Science Laboratory		700
Central Statistical Office		1 260
Central Veterinary Laboratory		635
Chemical and Biological Defence Establishment	²	625
Chessington Computer Centre	³	405
Civil Service College		250
Coastguard		545
Companies House	³	970
Compensation Agency	⁴	155
Defence Accounts Agency		1 990
Defence Analytical Services Agency		120
Defence Animal Centre	²	220
Defence Clothing and Textile Agency	²	445
Defence Operational Analysis Centre	²	190
Defence Postal and Courier Services	²	505
Defence Research Agency	^{2,3}	9 270
Disposal Sales Agency		90
Driver and Vehicle Licensing Agency		4 100
Driver and Vehicle Licensing Northern Ireland	⁴	225
Driver and Vehicle Testing Agency	⁴	240
Driving Standards Agency		1 820
Duke of York's Royal Military School	²	95
Employment Service		43 610
Fire Service College	³	260
Forensic Science Service		650
Government Property Lawyers		125
Highways Agency		2 300
Historic Royal Palaces Agency		460
Historic Scotland		635
HM Land Registry	¹	8 645
HM Prison Service		38 005
HMSO	²	2 990
Hydrographic Office		835
Insolvency Service		1 600

Intervention Board	915
Laboratory of the Government Chemist	300
Logistic Information Systems Agency ²	400
Maintenance Group Defence Agency ²	9 245
Marine Safety Agency	380
Medical Devices Agency	170
Medicines Control Agency ⁴	390
Meteorological Office	2 400
Military Survey	1 135
National Physical Laboratory	700
National Weights and Measures Laboratory	45
National Resources Institute	410
Naval Aircraft Repair Organisation ³	1 550
NEL	285
NHS Estates	100
NHS Pensions Agency	530
Northern Ireland Child Support Agency	685
Occupational Health Service	115
Ordnance Survey	2 110
Ordnance Survey of Northern Ireland ⁴	200
Patent Office ²	950
Paymaster	770
Pesticides Safety Directorate	170
Planning Inspectorate	600
Public Record Office	450
Public Trust Office	585
Queen Elizabeth II Conference Centre	65
Queen Victoria School	65
Radiocommunications Agency	530
RAF Signals Engineering Establishment ²	1 560
RAF Training Group Defence Agency ²	8 920
Rate Collection Agency ⁴	265
Recruitment and Assessment Services Agency	140
Registers of Scotland	1 190
Royal Mint ³	955
Royal Parks Agency	250
Scottish Agricultural Science Agency	140
Scottish Fisheries Protection Agency	250
Scottish Office Pensions Agency	175
Scottish Prison Service	4 500
Scottish Record Office	115
Security Facilities Executive	1 050
Service Children's Schools (North West Europe) ⁶	870
Social Security Agency (Northern Ireland) ⁴	5 090
Social Security Benefits Agency	65 380
Social Security Child Support Agency ⁷	5 000
Social Security Contributions Agency	9 880
Social Security Information Technology Services Agency	4 600
Social Security Resettlement Agency	200
Social Security War Pensions Agency	1 780

Student Awards Agency for Scotland	140
Teachers' Pensions Agency	330
The Buying Agency ³	95
Training and Employment Agency (Northern Ireland) ⁴	1 325
Transport Research Laboratory	520
United Kingdom Passport Agency	1 350
Valuation and Lands Agency ⁵	320
Valuation Office	4 905
Vehicle Certification Agency	75
Vehicle Inspectorate ⁶	1 580
Veterinary Medicines Directorate	90
Wilton Park	30
102 in number	
TOTAL AGENCY STAFF	281 680
TOTAL CIVIL SERVANTS	268 215
HM Customs and Excise ⁷ (30 Executive Units)	25 170
Inland Revenue ⁸ (29 Executive Offices)	59 785
TOTAL CIVIL SERVANTS WORKING ON NEXT STEPS LINES	353 170

Notes:

1. April 1994 figures for Civil Servants. Casuals are excluded.
2. Figures include military personnel.
3. Trading Fund
4. Northern Ireland Civil Service.
5. When fully operative, it is estimated that staff in post will number 850.
6. Excludes 1 284 locally engaged staff in Service Children's Schools (North West Europe).
7. DSS estimate the Agency will ultimately have around 5 000 staff.
8. Departments operating fully on "Next Steps" lines. Staffing figure for Inland Revenue excludes the Valuation Office which is a free standing agency.

Source: H.M. Treasury.

Appendix C

**Next Steps — activities announced by ministers as candidates for agency status
as of 7 December 1994**

	Department	Staff
Army Base Storage and Distribution Agency ¹	Defence	6 525
Army Engineer Services ¹	Defence	760
Army Pay and Personnel Management ²	Defence	2 165
Army Procurement and Provisioning ²	Defence	660
Army Recruitment ²	Defence	1 025
Army Technical Support Authority ²	Defence	1 180
Army Training ¹	Defence	18 255
Business Development Services	NICS	170
Civil Service Superannuation and HPS Superannuation	NICS	70
Court Service	Lord Chancellor's	10 750
Crown Prosecution Service		6 585
Defence Central Services	Defence	1 220
Defence Codification Authority ²	Defence	105
Defence Communication Service ²	Defence	875
Defence Estates Organisation ²	Defence	1 370
Defence Medical Services	Defence	5 240
Defence Transport Movements Executive ²	Defence	240
Department for National Saving:		5 695
Department Information Systems Units	NICS	400
Environment Services	NICS	415
Estate Services Directorate	NICS	135
Fisheries Research Services	Scottish Office	245
Fleet Maintenance and Repair Organisation ²	Defence	2 115
Forensic Science Laboratory ¹	NIO	140
Forest Enterprise ¹	Forestry Commission	3 395
Fuel Procurement Branch	Environment	15
Health and Safety	NICS	60
Health Service Information Systems	NICS	145
Highways Directorate	Welsh Office	165
Industrial Research and Technology Unit	NICS	150
Insolvency Service	NICS	60
Land/Deeds Registration	NICS	210
Marine Services (Naval)	Defence	1 800
MoD Police ²	Defence	4 580
National Meat Hygiene Service	Agriculture	1 300 ⁴
Naval Support ² (includes the Naval Bases and Supplies & Transport)	Defence	14 735

Office of Population Censuses and Surveys ⁵		1985
Other Defence Training ²	Defence	2 580
Personnel Vetting Agency ²	Defence	470
Planning Service	NICS	415
Pricing and Quality Service	Defence	1 180
Prison Service	NICS	3 710
Property Holdings	Environment	445
Public Record Office	NICS	90
RAP Logistic Support Services	Defence	1 525
RAF Pay and Personnel Management ³	Defence	915
RAF Recruiting ³	Defence	740
RAF Support Management Group ³	Defence	1 970
RN Pay and Personnel Management ²	Defence	495
RN Platform and Equipment Support ²	Defence	2 685
RN Training and Recruitment ²	Defence	5 415
Roads Directorate	Scottish Office	150
Roads Services	NICS	2 575
Science Service	NICS	720
Scottish Court Service	Scottish Courts Administration	1020
Serious Fraud Office⁵		140
Statistics Census Office GRO	NICS	110
Telecommunications	NICS	110
Trading Standards	NICS	55
Treasury Solicitor's Department ⁵		390
Watercourse Management	NICS	545
Water Executive	NICS	2 430
Works Service	NICS	785
Youth Treatment Service	Health	235
64 in Number	TOTAL STAFF	126 840
	TOTAL CIVIL SERVANTS	93 575

Notes:

1. April 1994 figures for Civil Servants. Casuals are excluded.
2. Figures include military personnel.
3. Forest Enterprise is staffed by Forestry Commission civil servants.
4. Estimated to require 1 300 staff drawn from a variety of sources.
5. Independent Government Departments.

Source: H.M. Treasury.

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NOTES

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2. "Agencies" here is used to mean public sector units in general. In the Civil Service context, the term "civil service agencies" is specified.
3. For an authoritative review of the reform of public sector pay in all OECD countries see Marsden, 1993, and OECD, 1994b.
4. In England and Wales, but not Scotland, water supply has been privatised.
5. More commonly known as "Next Steps" agencies after the report "Improving Management in Government: The Next Steps" which led to the establishment of these agencies. See Goldworthy, 1991.
6. See Next Steps Briefing Note, 1st July 1994.
7. See Duffus K, 1995, "Earnings Dispersion in Britain", Department of Economics University of Aberdeen.
8. There may be problems with the data series as sample numbers are relatively small and show large fluctuations over the period 1990-93; the data is taken from the New Earnings Survey though two different sources are used for the database during the period and a change in the occupational coding system occurs in 1990.
9. Note that Marsden and Richardson (1994, p. 5) also record that the proportion of individuals receiving the highest rewards fell from 12 per cent in 1988 to 5 per cent in 1991.

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